

## Colorado Works Evaluation 2007 Annual Report

October 2007

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Following enactment of the federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in August 1996, the state of Colorado implemented its Temporary Assistance for Needy Families (TANF) program, Colorado Works. PRWORA repealed the Aid to Families with Dependent Children (AFDC) program, a federal entitlement to assistance, and replaced it with the TANF program. PRWORA authorized capped block grant funding to states for TANF, imposed a five-year time limit on lifetime cash assistance provided with federal TANF funds, and mandated stricter work participation requirements than had existed under AFDC.

The Colorado Department of Human Services (CDHS) contracted with The Lewin Group and its partners, the University of Colorado's Health Sciences Center, the Johns Hopkins University's Institute for Policy Studies, and Capital Research Corporation, to perform an in-depth study of the Colorado Works program. The study's design was developed by the Lewin team in consultation with CDHS officials and an Advisory Committee consisting of representatives of the counties and Colorado's advocacy community. This report presents findings from the second year of that study.

### A. Major Activities

During the second year of the study, the major activities of the evaluation included the following:

- **Focus groups with Colorado Works participants and applicants.** In order to better understand why people come to Colorado Works and what helps or hinders their ability to become self-sufficient, 17 focus groups were conducted with Colorado Works applicants, current participants, and past participants. A mixed audience of TANF participants was targeted for participation, including long-term recipients, new applicants, and those who have received diversion payments.

- **Employer interviews.** Between January and March 2007, interviews were conducted with 25 employers in nine counties in order to gain insight into Colorado employers' experiences with welfare recipients whom they have hired for low-skill, entry-level jobs.
- **Interviews with county Colorado Works directors.** The Lewin team conducted interviews with Colorado Works county directors in 19 counties during the spring and summer of 2007 regarding their county work participation and diversion strategies.
- **Analyses of special topics.** As part of the study, the Advisory Committee chooses topics of specific interest to it and DHS for in-depth examination. The project team submitted reports on four such topics this year. These topics were: (1) *Trends and patterns in county-level Colorado Works expenditures*, as well as funding allocations to counties and county reserves; (2) *Factors affecting participation and engagement in the Colorado Works program*, including county strategies for meeting the work participation rate, county diversion policies, and sanctioning practices; (3) *Experiences of Colorado Works applicants and participants* presenting findings from the focus groups; and (4) *Employer experiences* based on the interviews with employers.
- **Collection and analysis of administrative data.** The team collected and analyzed data from many state administrative systems, including the Colorado Benefits Management System (CBMS) and historical data from the "legacy" information systems it replaced; subsidized child care records from the Colorado Child Care Automation Tracking System (CHATS); child support enforcement records from the Automated Child Support Enforcement System (ACSES); state fiscal reports from the County Financial Management System (CFMS); and unemployment insurance (UI) wage records. Findings from analysis of the data from these sources are presented in this report and in the special topic reports.

## B. Key Findings

This annual report presents findings from the evaluation's second year in several areas: trends in the Colorado Works caseload and characteristics of those families participating in the program; trends in county expenditures and reserves; participation in work activities; the receipt of child care and other supportive services by Colorado Works families; and employment outcomes among Colorado Works participants, including both those on the program and those who have recently left the program. Two of these (fiscal trends and work participation) are the subjects of two of the four special topic reports produced as part of the study this year; the main findings from those separate reports are summarized here.

### 1. *Characteristics of the Colorado Works Caseload*

- *The Colorado Works caseload has been declining over the past two years.*

The average monthly number of basic cash assistance (BCA) cases in Colorado declined in the 1990s, decreasing by 75 percent between calendar years 1993 and 2001, according to federal data. Between 2001 and 2005 the caseload increased by more than 40 percent, but has decreased again by 22 percent between 2005 and the beginning of 2007. State administrative data confirm the recent caseload decline.

In contrast, diversion cases have been increasing in recent years; there were 41 percent more diversion cases in January through May of 2007 than there had been in the same months of 2005. This was due to an increase in state diversion cases; county diversion cases stayed relatively stable over the same period. With diversions increasing and BCA cases decreasing, diversion has been making up an increasing share of Colorado Works assistance.

- *There is only limited variation in demographic characteristics among different types of Colorado Works BCA cases.*

Two-parent cases are somewhat more likely than one-parent cases to have three or more children and children under the age of one, and less likely to have children over the age of six. However, these differences are not large, and on dimensions such as age of the head of household and whether the head of household has a disability, there is very little difference between one- and two-parent cases. On the other hand, child-only cases are substantially more likely to have a child over the age of six, and diversion recipients differ considerably from adult-headed BCA cases, particularly in that many fewer recipients have disabilities.

- *Financial sanctions and case closures for non-participation are applied to a small share of the caseload each month.*

In an average month, work-related sanctions, case closures for demonstrable evidence, and 24-month case closures (for failure to participate in work activities) affected around 4 percent of work-eligible cases on Colorado Works in that month. Of that group, 75 percent received a formal sanction (level one, two or three), 13 percent had a case closed for demonstrable evidence, and 12 percent had their case closed for non-participation in work activities after being on TANF for 24 months. Those whose cases were closed for demonstrable evidence were somewhat more likely to return to Colorado Works within a year (33 percent, compared to 30 percent of those receiving a level three sanction and 27 percent of those with 24-month case closures).

- *Few cases in Colorado have been closed due to the TANF 60-month time limit.*

Over the past three years, less than one percent (0.8 percent) of active cases on average were closed due to the time limit each year.

- *A little more than half of BCA cases in state fiscal year (SFY) 2006 left Colorado Works at least once during the year, and most families that left the program did not return during the year.*

Fifty-seven percent of cases in SFY 2006 exited the program for at least a two-month period during the fiscal year. The vast majority of cases (77 percent) that left BCA in SFY 2006 did not return for BCA within twelve months after exit. The demographic characteristics of those who left Colorado Works in SFY 2006 and stayed off for at least a year are largely similar to those who never left the program during the year, though cases that exit are less likely to have heads of household with disabilities and are more likely to be on one-parent cases. Among diversion cases, 66 percent of state diversion families and 83 percent of county diversion families did not return to Colorado Works for additional assistance in the year after receiving diversion.

Over half of the BCA cases that left Colorado Works but returned within a year did so within three months of program exit.

## *2. Fiscal Trends*

- *Colorado Works is administered at the county level and program spending is funded through a mix of federal, state, and county sources.*

Funding for Colorado Works is allocated to counties each fiscal year according to a formula that is based mainly on caseload and population. Funds from the federal TANF block grant to the state along with some other funds are included in the Colorado Works block grant to the counties. Counties also contribute a share of the total costs of Colorado Works and are responsible for meeting a share of the federally-required maintenance of effort (MOE) requirement. Finally, the state legislature may authorize state funds for Colorado Works, though this does not occur in every year.

- *Total program expenditures grew from \$106 million in 2000 to \$141 million in 2003, then declined somewhat to a level of \$124 million (in 2006).*

Adjusting for inflation, however, overall Colorado Works expenditures were little changed at the end of the seven-year period, falling by 0.6 percent. The increase and subsequent decrease in nominal spending largely occurred through spending of federal funds, which peaked in 2002 at a level 80 percent higher than in 2000, but then declined somewhat. County-funded spending was relatively stable in nominal terms, while state-funded spending fell by more than 96 percent.

- *County reserves shrank in the early part of the decade, but rose in subsequent years.*

Reserves decreased from \$66 million in SFY 2000 to \$15 million in SFY 2002, but grew again to \$80 million in SFY 2007. This pattern in part reflects legislative action by the state; lower reserves in 2002 and 2003 reflect legislative decisions to revise how the county reserve was calculated and how much would revert to the state's long-term Colorado Works reserve fund, but in 2004, the legislature determined that counties could retain their full reserve funds. Discussions with state and local administrators revealed that the reserve amounts are also in part related to fluctuations in the caseload. County administrators may decide to maintain a reserve level for many reasons, such as ensuring the availability of funds in the event of a caseload increase; retaining funds for a future initiative; and buffering for unexpected cost fluctuations.

- *About half of Colorado Works spending is for BCA, and about half is for other purposes.*

Forty-seven percent of total Colorado Works expenditures by counties in SFY 2006 went to BCA, and non-BCA spending represented 53 percent. There is notable county variation; among the 10 largest counties the amount of spending going to BCA ranged from 21 percent of expenditures in Adams County up to 64 percent in Arapahoe County. Based on conversations with Adams County, which had the highest share of non-BCA expenses among the 10 largest counties, much of the non-BCA spending is for contracted employment/training services and for contracted community investment initiatives. It is likely that non-BCA spending in many

other counties is also for employment-related services or community investments; however, given the differences in how counties record such spending in CFMS, it was not possible in this analysis to report the various types of non-BCA spending for all counties.

### **3. Participation in Work Activities in Colorado Works**

- *As a consequence of the Deficit Reduction Act of 2005 (DRA), counties are making renewed efforts to increase their work participation rates.*

Colorado has consistently met the required work participation rates since the enactment of PRWORA largely through the caseload reduction credit that, owing to the size of the state's caseload decline since 1995, effectively created a zero percent requirement. The DRA reset the credit's base year to federal fiscal year (FFY) 2005, eliminating the effect of the caseload reduction that occurred in the 1990s. Colorado may now be required to have up to 50 percent of its caseload in work activities. Counties are using or considering a broad range of strategies to encourage participation in work activities, address clients' personal interests and barriers, and supplement the county's work participation rates.

- *The state's work participation rate has been increasing in recent years, but is still short of the required level.*

The all-families participation rate has increased from 20 percent in FFY 2005 to 24 percent in FFY 2007. New cases have become engaged in work activities more quickly; for example, in the third quarter of FFY 2007, 43 percent of new cases were engaged in the initial month, up 14 percentage points from the same quarter in the previous fiscal year. Similarly, the share of cases with no hours counting towards work requirements has fallen from 62 percent in FFY 2005 to 51 percent in FFY 2007. However, at 24 percent, the work participation rate is still short of the federal targets even when taking the anticipated caseload reduction credit into account.

- *Families fulfilling work participation requirements in Colorado are mostly those that face lower hour requirements.*

In FFY 2007, the participation rate of single parents with children under the age of six, who only needed to participate in activities for 20 hours, was 34 percent. The participation rate of teenage parents, who can meet the participation requirement through school attendance or training, was 48 percent. In contrast, only 7 percent of non-teenage parents whose children were six and older participated in activities for enough hours to fulfill the work participation requirement.

Consequently, those facing lower requirements make up a disproportionate share of those who fulfilled work requirements in 2007. Seventy-six percent of cases fulfilling the work requirements were single parents with children under the age of six. Teenage parents meeting the participation requirement through school attendance or training accounted for 4 percent of those fulfilling the rate.

#### 4. *Child Care and Other Supportive Services*

- *Twenty-two percent of Colorado Works cases with an adult on the case received child care assistance in SFY 2006.*

In general, families with younger children receive child care more frequently than families with older children. (One exception is that families with children under the age of one are less likely to receive child care than families whose youngest child is between one and four). In addition, average child care payments are higher for families with younger children. Of those who receive assistance, close to two thirds (65 percent) receive licensed center-based care; 22 percent receive unlicensed care; and 16 percent receive licensed home-based care.

- *In SFY 2006, about 44 percent of Colorado Works cases received a service classified as a supportive service.*

The most commonly received were transportation assistance – 29 percent of cases received transportation assistance at some point during SFY 2006, with an average payment of \$93 – and family/personal need payments, made to 13 percent of cases, with an average payment of \$229. The highest average payments, at \$454, were housing related; these were received by 6 percent of cases.

#### 5. *Employment Outcomes of Colorado Works Clients*

- *About one third of Colorado Works recipients engage in unsubsidized employment in each quarter.*

In the period from the first quarter of 2005 to the first quarter of 2007, between 29 percent and 36 percent of Colorado Works recipients were working. This proportion may be declining; the lowest employment rate during this period occurred during the first quarter of 2007. Median earnings are low (median quarterly earnings fluctuate throughout the year, and ranged from \$998 to \$1,229 during this period), which partially reflect limits on how much families can earn while remaining on Colorado Works.

- *About two-thirds of those leaving Colorado Works are employed at some point in the first year after leaving the program, though earnings are low.*

UI wage records show that 69 percent of those who leave have earnings in the first year after leaving Colorado Works, and 65 percent have earnings in the second year following their exit. In each given quarter during the first two years, employment rates were relatively stable at approximately 50 percent. However, only 22 percent are employed in all quarters of their first two years after exiting. Median quarterly earnings are low, though they increased from \$2,371 among those working in the quarter of exit to \$3,165 among those working in the seventh quarter after exit. Employment patterns do not differ markedly between those who leave and do not return to the program during the following two years and those who do return, though those who do not return have higher median earnings.



- *A substantial share of those who leave Colorado Works do not appear to have any earnings to support them.*

Of individuals who left TANF between January 2005 and June 2005, 41 percent did not have earnings or Colorado Works payments in the first quarter after exiting TANF. By the seventh quarter after exiting TANF, 47 percent did not have earnings or receive welfare. During the first year after exiting TANF, a quarter of leavers had no earning and no TANF payments for the entire year. There are several reasons individuals may not have earnings shown in the UI wage data and yet not return to Colorado Works, such as receiving assistance through the Supplemental Security Income (SSI) program, working a job not covered by the UI system or outside Colorado, being supported by a family member, or no longer being eligible for TANF. This is a topic that the Lewin team will explore in a future, more detailed study of Colorado Works leavers.

### C. Future Work

The next year of the Colorado Works evaluation will explore several new topics of interest to the state and Advisory Committee and conduct new data analyses. The work to be performed in SFY 2008 is described below.

- **Colorado Caseload Modeling Project.** The purpose of this task is to help the state better understand the changes in its TANF caseload by developing statistical models that provide estimates of the effects of changes in the characteristics of the state population, the economy, and the Colorado Works program on the size of the caseload. Regression analysis will be used to estimate the models.
- **County Survey.** The county survey will be conducted to gather information on county policies, initiatives, and strategies implemented in the counties since the survey administered in 2005. The survey will cover topics such as information on TANF policies, the types of collaboration with other agencies, fiscal decisions, and special initiatives and strategies.
- **Field Research.** A second round of field visits will be conducted. The field work will allow us to collect more in-depth data in several counties. Some potential topics include innovative service strategies, approaches to case management, fiscal planning and decisionmaking, operational detail on key evaluation topics (e.g., participation rates, caseload change, Colorado Works leavers, and diversion), and other important and emerging programmatic issues as determined in consultation with the Advisory Committee.
- **Colorado Works Leavers Study.** Colorado's TANF caseload declined significantly in FFY 2006, from 15,049 in October 2005 to 12,972 in September 2006. A survey of leavers will collect detailed information regarding their employment, as well as other sources of income (e.g., from family and friends, from disability benefits, and from the Earned Income Tax Credit), and the extent to which leavers experience material hardships.
- **Work Participation Study.** Work participation rates for FY 2007 and FY 2008 will be examined in a follow-up work participation study. This study will also examine any

changes counties are making (e.g., using diversion grants or moving the hard-to-employ into a non-MOE program) and learn county strategies from those counties that have successfully increased their rates between FY 2006 and FY 2008. Analysis in the study will also examine which strategies appear to be related to changes in rates over time.

- **Comparative Study.** In this task, Colorado's policies and outcomes will be compared to other state's programs. Comparisons will be made between Colorado and other states in terms of caseload changes, work participation, benefit levels, length of stay on TANF, and the percent reaching the 60-month lifetime limit. Policy choices made by other states relative to those made by Colorado (e.g., in terms of earned income disregards, diversions, sanctioning, work participation, and time limits) will be examined.